

TRENDS

Volume 9, Issue 1

Spring 1998

Per capita State Health Plan payments increase 4.0% in 1997

State Health Plan (SHP) claims expenditures per person rose 4.0 percent in 1997 to \$1,536. Total payments for the 312,776 individuals insured by the Plan were \$480.4 million, a 7.7 percent increase over the \$445.9 million spent the previous year. The average number of insured individuals in 1997 increased 3.6 percent from 1996.

Subscribers

The State Health Plan's 175,304 subscribers in 1997 included employees, retirees, surviving dependents of employees and retirees (called "survi-

vors") and individuals with COBRA (continuing coverage mandated by the Consolidated Omnibus Budget Reconciliation Act).

Payments totaling \$324.3 million were paid on behalf of these SHP subscribers, an average of \$1,850 per subscriber.

Payments on behalf of subscribers' covered spouses (45,772 individuals) totaled \$95.5 million, averaging \$2,087 per spouse. The 91,701 covered children of subscribers incurred a total of \$60.6 million in payments during 1997, an average of \$661 per child.

Inside TRENDS...

1997 State Plan Claims
Page 1

1998 State Group
Enrollment
Page 5

State Employee Plan
Premium Survey
Page 8

Past TRENDS
Page 11

1998 State Group
Enrollment Map
Page 12

Charges

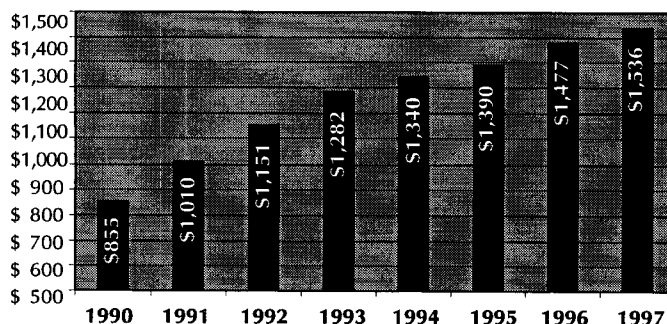
Total State Health Plan charges totaled \$1.058 billion in 1997, an increase of 11.3 percent over 1996.

Of the charges not paid by the SHP, \$252.3 million was covered through coordination of benefits (COB) with Medicare.

Medicare (the primary payer for retirees 65 and over, as well as persons approved by Social Security for disability retirement) typically pays the large majority of a claim before it goes through SHP's system. Among these claims, the SHP recognizes an amount for payment only after Medicare has completed processing a charge. Prescription drug claims are an exception to this

Continued on Page 2

State Health Plan Annual Payment per Insured Person: 1990-1997



1997 State Plan Claims

Continued from Page 1

process because they are not a covered Medicare benefit.

As usual, COB with Medicare was the largest area not covered by the SHP, as well as the fastest growing. From 1996 to 1997, the COB amount rose 14.3 percent. Subtracting the dollars covered by Medicare from total SHP charges reduces the overall SHP percentage growth to 10.3 in 1997.

Coordination of benefits with other group insurance plans, workers' compensation and subrogation saved the State Health Plan an additional \$20.9 million in 1997.

Another source of sizeable SHP savings was cost sharing with insureds in the forms of annual deductibles and coinsurance. Expenses incurred by individuals prior to meeting their annual deductibles of \$200 (Standard Plan) or \$300 (Economy Plan) amounted to \$42.1 million in 1997. The 15 percent (Standard) or 20 percent (Economy) coinsurance paid by insureds amounted to an additional \$65.1 million for the year.

Claims disallowed because of limits in the State Health Plan contract totaled \$50.9 million in 1997. These claims include payments disallowed because of

SHP's preexisting waiting period (\$4.4 million). This amount increased significantly from 1996 to 1997--by 65.8 percent. Other disallowed claims include: non-covered services or dollar limits on certain services (\$29.7 million); charges for non-covered dependents, experimental services, or services that are not medically necessary (\$15.3); and reductions

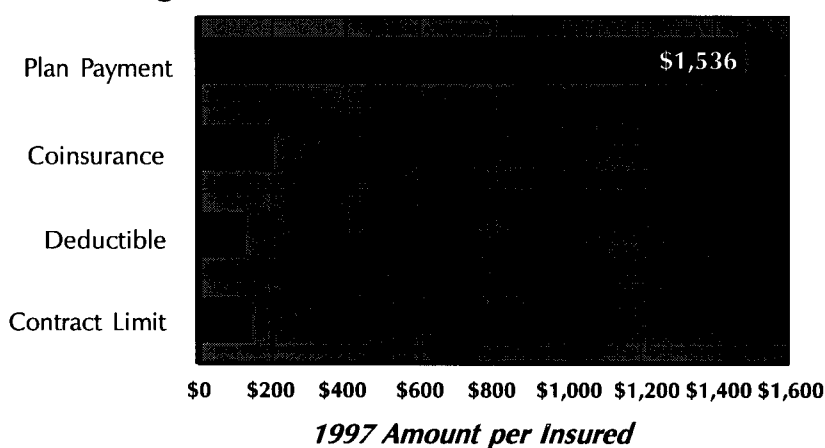
ment of hospital room and board charges for cases in which pre-certification was not obtained resulted in another \$1.0 million savings in 1997. Pre-certification penalties applied to subscribers equaled \$0.6 million last year.

Expenditures

The inpatient hospital sector, with \$145.6 million in SHP

payments in 1997, comprised 30.3 percent of all SHP claims expenditures. This sector, with the highest total payments of all other service types, experienced a slight 0.6 percent increase from 1996's \$144.7 million total.

1997 Average Amount Paid by Plan, Average Amount Shared with Each Insured



for multiple surgical procedures performed through the same incision (\$1.6 million).

The items categorized as Managed Care Savings accounted for \$118.7 million in charges not paid in 1997. These savings include the State Health Plan's hospital pricing policy, in which SHP prices are set below actual charges. This policy led to \$50.3 million in savings for the year.

Along the same line, professional payment reductions led to another \$58.3 million in payments below charges. An additional \$6.6 million was saved through pricing reductions from other providers.

The State Health Plan's nonpay-

The number of 1997 inpatient admissions also increased, if only slightly, rising 1.8 percent to 27,601.

Outpatient expenditures in 1997, however, increased by a significant 9.5 percent to \$96.0 million. Together, inpatient and outpatient hospital expenditures equaled \$241.6 million, an overall increase of just 3.9 percent.

Professional outpatient payments increased as well in 1997; they rose a full 9.9 percent to \$41.0 million. The total number of professional outpatient cases also rose in 1997, by 7.5 percent.

Continued on Page 3

1997 State Plan Claims

Continued from Page 2

Professional inpatient payments, on the other hand, increased just 0.2 percent in 1997, to \$39.0 million. The total number of inpatient cases also only increased slightly; there was just a 2.1 percent change over 1996.

In 1997, SHP payments for prescription drugs increased a full 18.1 percent from 1996 payments. The 1996 prescription payments totaled \$55.3 million, whereas the 1997 payments were \$65.3 million. The number of actual prescriptions paid also increased significantly, by 8.5 percent. Consequently, the average payment per prescription grew by 8.8 percent, from \$21.68 in 1996 to \$23.60 in 1997.

Other SHP payments in 1997 include: home health services (\$8.3 million), durable medical equipment (\$1.2 million), skilled nursing services (\$1.4 million)

and dental services covered by the medical program (\$0.7 million).

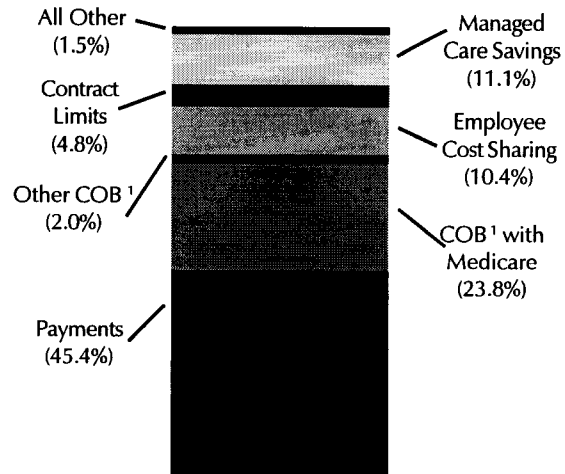
Payments for surgical services in 1997 equaled \$187.0 million, a figure that includes facility and professional costs for both inpatient and outpatient services.

Payments for other services include: medical (\$94.3 million), lab/x-ray (\$64.9 million), maternity/

newborn (\$18.0 million), anesthesia (\$10.0 million), chiropractic

Continued on Page 4

1997 Disposition of SHP Charges

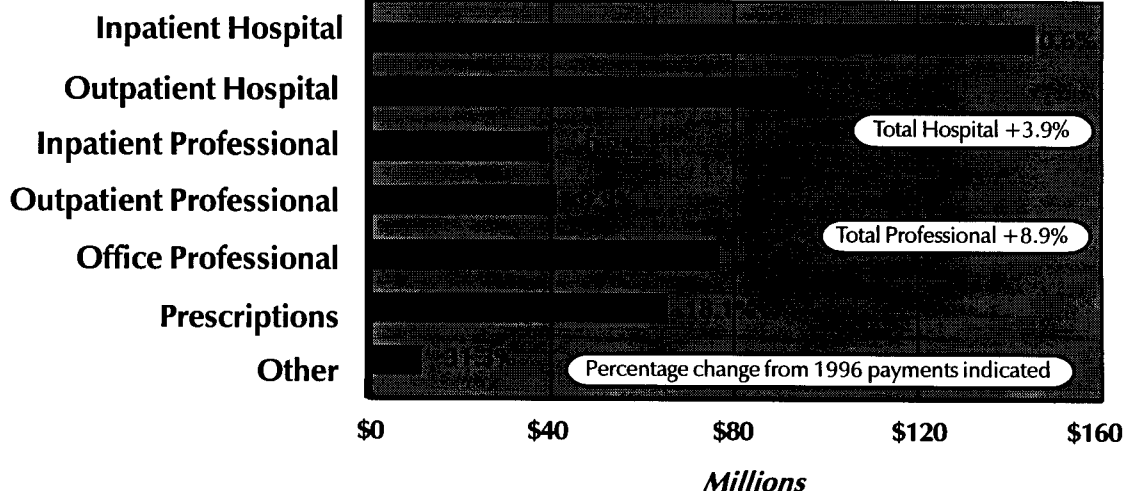


Total 1997 Charges: \$1,058.5 Million

¹ COB - Coordination of Benefits

1997 State Health Plan Claims Payment, by Service Type, Location

Total 1997 Payments: \$480.4 Million



1997 State Plan Claims

Continued from Page 3

(\$6.0 million) and mental health/chemical dependency (\$6.1 million).

The rate of expenditure growth varied by type of service in 1997.

Payments to hospitals for surgeries grew only 2.1 percent in 1997 to \$141.2 million; payments to doctors for professional surgical services, on the other hand, increased 5.1 percent to \$45.7 million.

From 1996 to 1997, medical services payments to hospitals increased to \$44.5 million, just 9.4 percent. The payments to professionals for medical services, however, increased by 12.2 percent from the previous year. Over the past several years, this increase has been a trend. From 1993 to 1994, payments rose 12.2 percent; from 1994 to 1995,

payments rose 15.7 percent; and from 1995 to 1996, payments rose 14.1 percent.

Analysis of Growth Rate

The 4.0 percent growth rate in SHP claims expenditures per person represents a continuing rise in program costs, after last year's 6.3 percent hike and 1995's 3.7 percent increase.

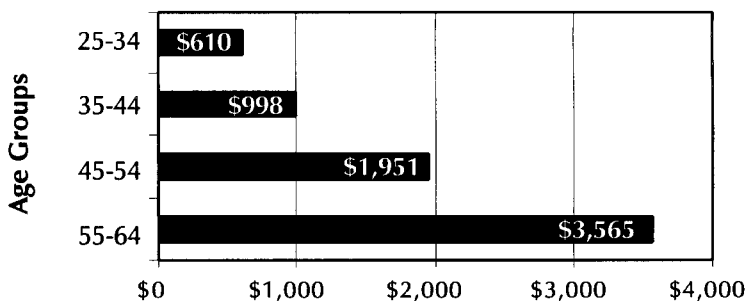
A number of reasons may explain this trend of continuing

growth: an aging population, adverse selection from HMOs and high consumer demand for new medical technology.

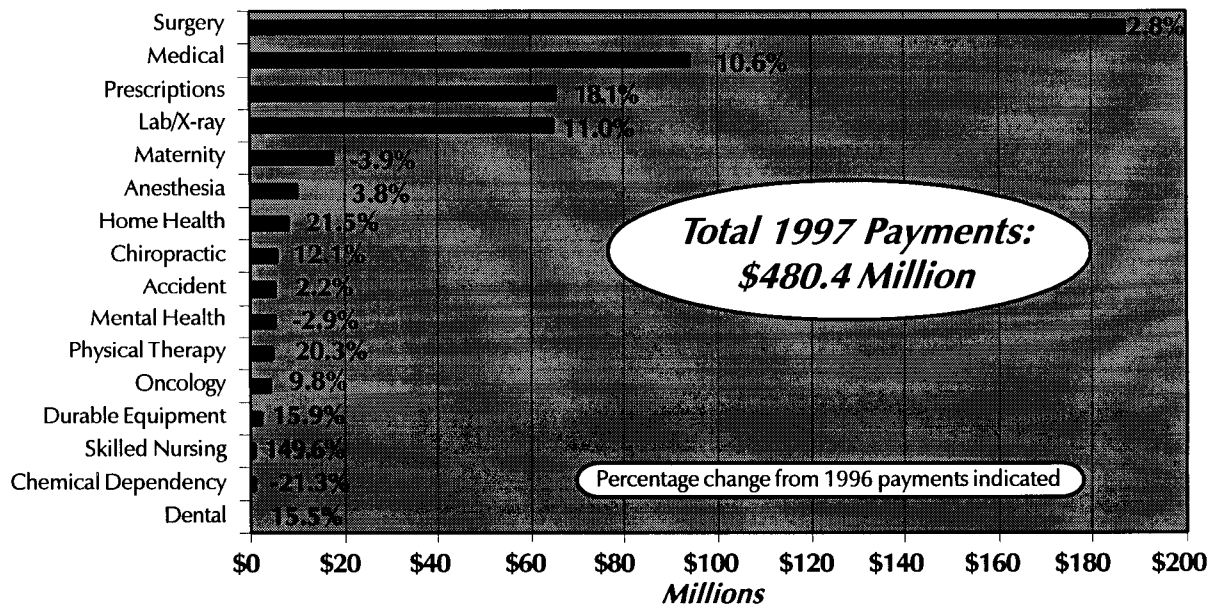
The SHP population is steadily growing older, with health care costs rising dramatically as we age. For example, in 1996, men in the State Health Plan between the ages of 25 and 34 experienced per capita health care payments of \$610. At the same time, the average per capita payment for men between

Continued on Page 7

1996 State Health Plan per Capita Payments Among Males, by Age Group



1997 State Health Plan Claims Payment, by Detailed Service Type



State Plan gains during 1998 enrollment period

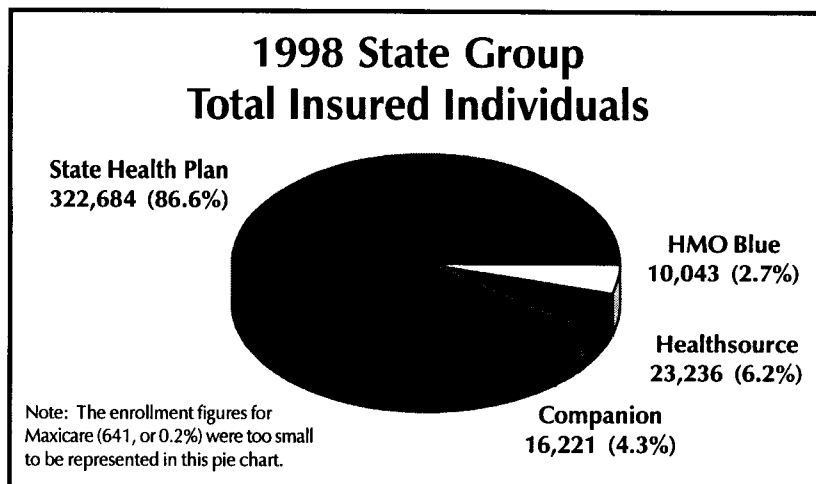
Similar to last year, 1998's enrollment figures indicate that over 86 percent of the State group population elected State Health Plan (SHP) coverage over HMO (health maintenance organization) coverage.

Also like last year, 1998 figures indicate that a greater number of subscribers who changed medical programs during the enrollment period switched from an HMO to the State Health Plan than from the SHP to an HMO.

Insured Individuals

Using February 1998 enrollment figures, 322,684 (86.6 percent) of the 372,825 State group insured individuals were covered by the State Health Plan. This rate is slightly higher than February 1997's 85.5 percent.

The remaining 50,141 State group members (13.5 percent) were enrolled in HMOs. Of the HMO insureds, 46.3 percent (23,236) selected Healthsource, 32.4 percent (16,221) selected Companion, 20.3 percent (10,043) selected HMO Blue and 1.3 percent



(641) selected Maxicare.

Contracts

Examining February 1998 enrollment figures by number of contracts (or subscribers), as opposed to total number of individuals, reveals a similar breakdown. Out of the 209,862 contracts in the State insured group, 180,684 selected the State Health Plan (86.1 percent), whereas 29,178 (13.9 percent) selected an HMO.

Looking at the active population only, a slightly lower percent-

age enrolled in the SHP (82.6 percent). Among retirees, however, State Health Plan coverage was almost universal (98.6 percent).

Of the 29,178 HMO subscribers in February 1998, 47.4 percent (13,841) selected Healthsource, 31.1 percent (9,066) selected Companion, 20.3 percent (5,922) selected HMO Blue and 1.2 percent (349) selected Maxicare.

HMO Service Areas

In order to enroll in a particular HMO, an individual must live or work within the boundaries of its service area. A service area may include anywhere from two to seven counties.

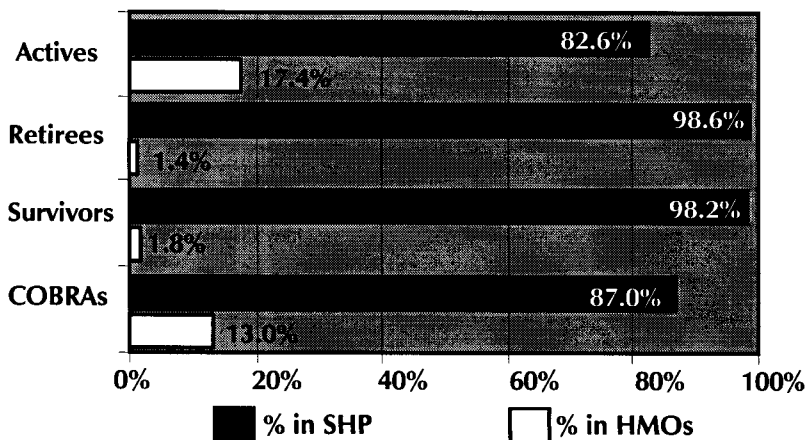
During this last enrollment period, there were several changes in service area coverage by the State group HMOs.

Companion HealthCare left three new service areas in 1998 --in 1997 it had 11; it now has eight. Companion left Greenville and Spartanburg voluntarily; it left Greenwood because it did not meet hospital availability guidelines in that area.

Healthsource, on the other

Continued on Page 6

Division of Subscribers between SHP and HMOs, by Subscriber Type



1998 Enrollment

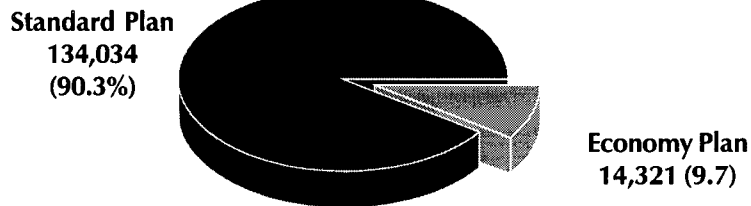
Continued from Page 5

hand, added a service area (Sumter), growing from six to seven. HMO Blue also experienced an increase, adding four service areas (Greenville, Spartanburg, York and Florence).

Maxicare, one of the Plan's newer HMOs, served four areas last year; this year it left two of those areas (York and Aiken). Maxicare left Aiken voluntarily; it left York as a result of competition in the HMO selection process.

US Healthcare (which covered just 0.04 percent of the State group population in Febru-

Subscriber Contracts by Plan Type among Non-Medicare Population



State Health Plan subscribers switched to one of the five HMOs; 3,243 HMO subscribers, however, switched to the State Health Plan--a net gain of 2,048 contracts.

State Health Plan

Looking now at State Health Plan enrollment figures, contract allocation by tier in 1998 remained consistent with that of previous years.

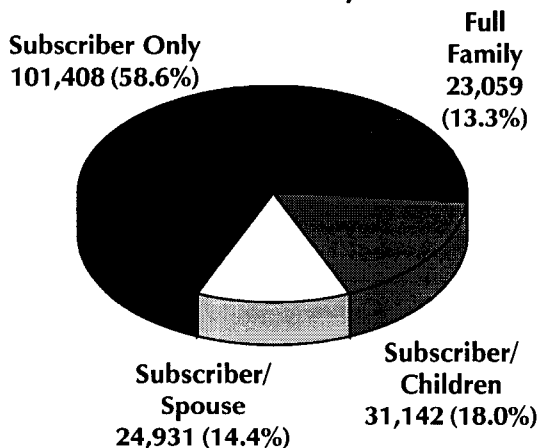
The majority of SHP insured individuals were under a Subscriber Only contract (101,408 or 58.6 percent); 24,931 contracts (14.4 percent) were Subscriber/Spouse; 31,142 contracts (18.0 percent) were Subscriber/Children; 23,059 (13.3 percent) were Full Family; and 143 were Child Only (0.1 percent).

Of the 134,800 active employees in the State Health Plan, 89.7 percent (120,899) were in the Standard Plan and 10.3 percent (13,901) were in the Economy Plan. The Standard Plan has an annual individual deductible of \$200 and 85/15 coinsurance; the Economy Plan has a \$300 deductible and 80/20 coinsurance.

Of the 42,231 State Health Plan retirees, 29,545 (70.0 percent) were eligible for Medicare.

Medicare-eligible retirees can opt for either the Medicare Supplement Plan or the Standard

1998 State Health Plan Enrollment, by Tier



Note: The enrollment figures for *Child Only* (143, or 0.1%) were too small to be represented in this pie chart.

ary 1997) withdrew from the State Plan this year, leaving its one service area (Sumter).

State Group Movement

During the enrollment period, 4,438 subscribers (2.1 percent of the total subscriber population) made some sort of medical program switch between the SHP and HMOs.

In 1998, a total of 1,195

and just 24 leaving Maxicare.

Companion, on the other hand, experienced a net loss of 202 (1,428 subscribers joined from other programs, while 1,630 left). Healthsource had a large net loss of 2,526 (674 subscribers joined, 3,200 left).

Finally, all nine subscribers left US Healthcare, which as of January 1, 1998 was no longer part of the State group.

Continued on Page 7

1997 State Plan Claims

Continued from Page 4

ages of 35 and 44 was \$998; for men ages 45 to 54, it was almost twice as much--\$1,951; and for men ages 55 to 64, the payment was almost twice as much again--\$3,565.

The problem of an aging population is exacerbated by the presence of the fully-insured HMOs in the program. In fact, from 1990 through 1996, the growth in the average age of State

Plan enrollees increased by more than twice that of HMO enrollees, and remains around 10 years higher. Not only do HMOs consistently enroll a younger population than the SHP, but analysis has shown that even after controlling for age, HMO enrollees are less likely than State Plan members to be afflicted with a chronic disease.

A third factor affecting health care costs is a high consumer awareness of health care technol-

ogy. This awareness results in patients demanding the most advanced, and often the most expensive, treatments possible--requiring increasingly more insurance to cover their costs.

These three factors--demographics, technology and consumer demand--indicate that significant cost increases will continue to affect the SHP in the foreseeable future. □

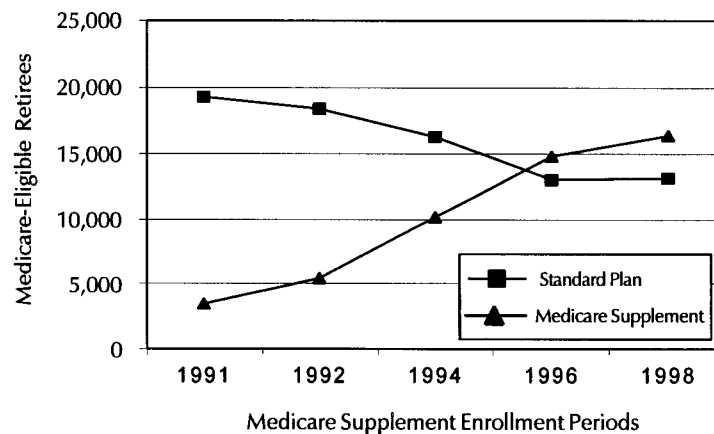
1998 Enrollment

Continued from Page 6

Plan. The Supplement Plan pays Medicare deductibles and coinsurance; it also includes a prescription drug benefit. The Standard Plan benefits are determined using the carve-out methodology, meaning that the total combined payment by Medicare and the State Health Plan is equal to the SHP payment for members who are not covered by Medicare.

Of the Medicare-eligible retirees, 55.5 percent (16,410) were enrolled in the Medicare Supplement Plan, while the other 44.5 percent (13,135) were in the Standard Plan. This was a Medicare Supplement enrollment period, which occurs every two

Medicare-Eligible Retirees Move from Standard Plan to Medicare Supplement Plan Over Time



years.

Retirees who are ineligible for Medicare have the same benefits as active employees. Of the 11,358

non-Medicare retirees, 10,938 (86.2 percent) chose the Standard Plan and 420 (3.3 percent) chose the Economy. □

1998 Disenrollment from State Plan and HMOs

	Total Disenrollment	Oct. '97 Enrollment	Disenrollment Percentage	Voluntary Disenrollment	Voluntary Disenrollment %
State Health Plan	1,195	175,275	0.7%	1,195	0.7%
Healthsource	3,200	16,408	19.5%	3,200	19.5%
Companion	1,630	8,894	18.3%	413	5.4%
HMO Blue	1,269	5,188	24.5%	1,269	24.5%
Maxicare	24	103	23.3%	16	16.8%
US Healthcare	9	9	100.0%	-	-

Disenrollment (subscribers leaving a particular plan option for another) comes in two ways. First, the plan option no longer may be available in the subscriber's area (which was true of Companion and Maxicare in certain areas and US Healthcare in its single service area). Second, a subscriber may opt for another plan, even though the current plan remains available. Leaving a plan under these circumstances is termed "voluntary disenrollment."

Survey of other state plans indicates SC Plan's good value

Given that State Health Plan premiums have not increased since 1991, it comes as no surprise that the Plan's rates are among the most competitive in the country.

In evaluating the State Health Plan, it is important to conduct periodic comparisons with its counterparts operated under similar circumstances.

Information regarding relative cost-effectiveness is vital in making well-informed management decisions.

The Office of Insurance Services recently set about to provide this information by surveying the 49 other state employee health insurance programs about their premium rates.

Methodology

The brief survey consisted of just two questions:

What type of structure does your state use to categorize active employee subscribers into different premium groups? (2-tier, 3-tier or 4-tier); and

What are your indemnity plan's rates as of 1/1/98 for each of these different groups? (Please include employer and employee rates.)

The survey responses were sorted by employer premiums, employee premiums and total premiums. The premiums were then sorted by tiers.

In the State Health Plan, South Carolina uses a 4-tier structure (*Employee Only, Employee/Spouse, Employee/Child(ren), Full Family*); however, many states use other

Policy-Holder & Employee Spouse & Children.

For the purpose of this study, these states were adjusted to fit into a 4-tier structure.

Our first step in analyzing the data was to calculate a composite rate for each state, which involved applying the relative weights derived from South Carolina's actual program enrollment to the tier structures of the other plans. (The relative weights are based on the percentage of actual enrollment in each tier--52.3 percent in

the Employee Only tier, 9.6 percent in Employee/Spouse, 23.1 percent in Employee/Child(ren) and 15.0 percent in Full Family.)

For example, to calculate the composite employer rate for South Carolina, the employer rates for each of the four tiers were multiplied by each tier's relative weight. The results were then totaled to determine the composite employer rate for South Carolina:

Employee Only:

$$\$128.09 \times 0.523134 = \$67.01$$

Employee/Spouse:

$$\$204.79 \times 0.095592 = \$19.58$$

Employee/Child(ren):

$$\$185.13 \times 0.231145 = \$42.79$$

Full Family:

$$\$253.75 \times 0.150130 = \$38.10$$

Total: \$167.47

1998 South Carolina State Health Plan Premiums

	Employer	Employee (Standard)	Total Rate
Employee	\$128.09	\$ 14.72	\$142.81
Employee/Spouse	\$204.79	\$ 97.02	\$301.81
Employee/Child(ren)	\$185.13	\$ 51.74	\$236.87
Full Family	\$253.75	\$142.12	\$395.87
Composite Rate	\$167.47	\$ 50.27	\$217.74

structures, such as a 2-tier (*Employee Only, Employee/Dependent(s)*) or 3-tier (*Employee Only, Employee/Spouse or Child(ren), Full Family*).

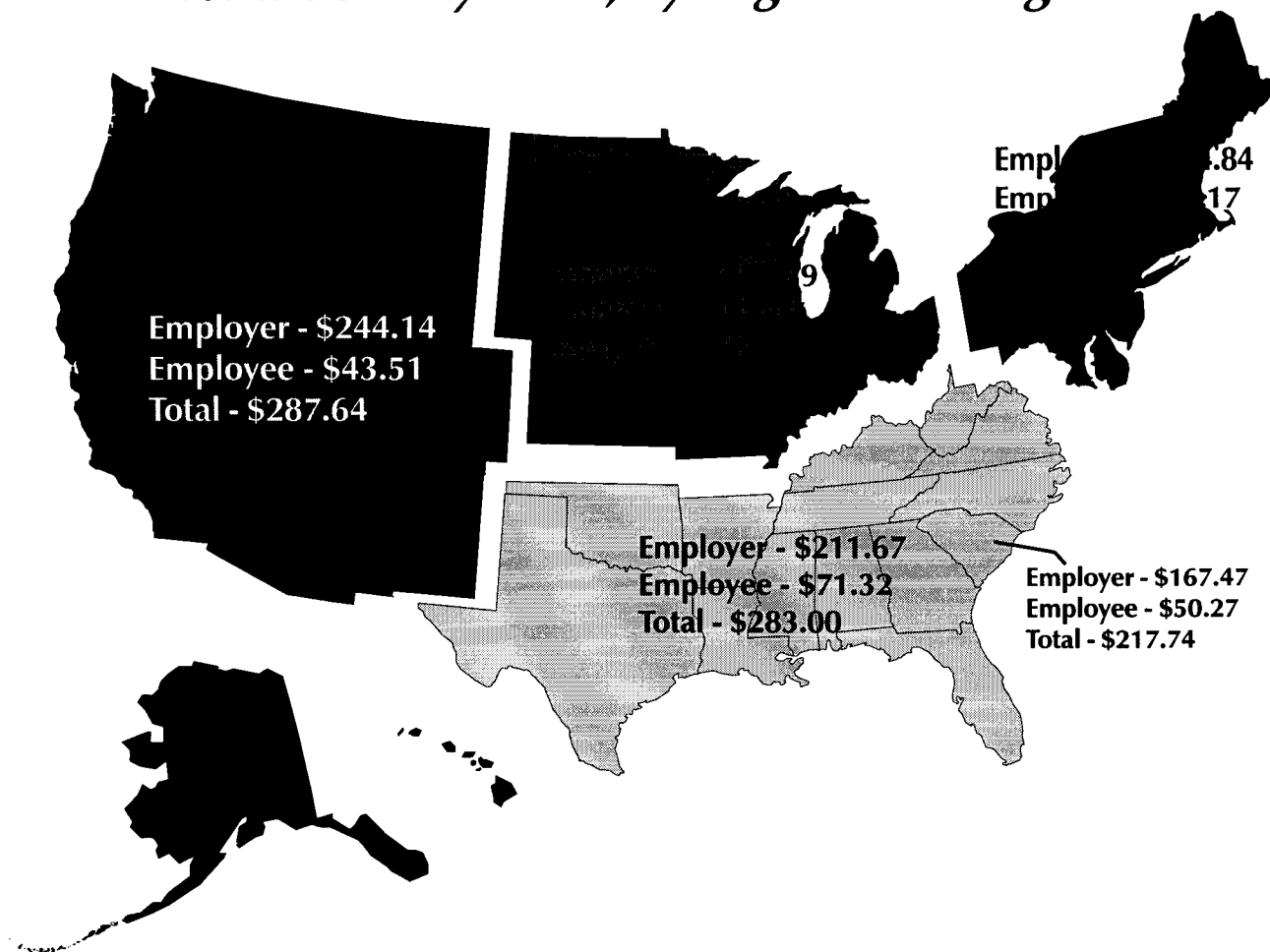
In fact, a few states (West Virginia, Oklahoma and South Dakota) use a 6- or 7-tier structure. The extra tiers accommodate various numbers of children or a policy holder with an employee spouse.

South Dakota, for example, has the following seven tiers: *Employee Only; Employee & 1 Child; Employee & 2 Children; Employee & 3 or More Children; Employee & Spouse; Employee & Spouse & 1 Child; Employee & Spouse & 2 or More Children.*

West Virginia, as an employee-spouse example, has the following six tiers: *Policy-Holder; Policy-Holder & Spouse; Policy-Holder & Family; Policy-Holder & Children; Policy-Holder & Employee Spouse;*

Continued on Page 9

1998 State Employee Health Plan Composite Premiums for Indemnity Plans, by Regional Averages



Survey Results

Continued from Page 8

Depending on the premium structure, a composite employer, employee and total rate was calculated for each state.

For states with a 2-tier structure, the formula used was: (Employee Only rate x 0.523134) + (Family rate x 0.476866).

For states with a 3-tier structure, the calculation used was: (Employee Only rate x 0.523134) + (Employee & 1 Dependent rate x 0.326737) + (Family rate x 0.150130).

The composite rates for states with a 4-tier structure were calculated with the same formula as South Carolina.

South Carolina Results

Out of the 50 state employee health plans, South Carolina's plan was ranked 47th in total premiums.

This ranking means that 46 state plans had higher total premiums than South Carolina, and only three had lower. South Carolina's \$217.74 premium comprises just 70.6 percent of the \$308.56 national

average.

Looking at just the 14 southern states, South Carolina ranked tenth, comprising 76.9 percent of the \$282.99 southern average.

South Carolina's *employer* premium, which was \$167.47, had a nationwide rank of 41st out of 50--65.4 percent of the \$255.98 national average. In the South, it ranked 11 out of 14, which is 79.1 percent of the \$211.67 southern average.

Continued on Page 10

Survey Results

Continued from Page 9

South Carolina's *employee* premium (\$50.27) ranked 28th nationwide (95.6 percent of the \$52.58 national average) and 12th in the South (70.5 percent of the \$71.32 southern average).

Regional Results

Of the four U.S. regions (Northeast, South, Midwest and West), the Northeast had the highest *total* premiums, with \$373.02.

The Midwest had the second highest (\$301.95), followed by the West (\$287.64). The South had the lowest total premiums, with \$283.00.

The region with the highest *employer* premiums was also the Northeast (\$324.84). The next highest was the Midwest, with \$257.39, followed by the West (\$244.14). The South had the lowest employer premiums, with \$211.67.

Looking at *employee* premiums, the South actually had the highest, with \$71.32. The Northeast had the next highest (\$48.17), followed by the Midwest, with \$44.57. The region with the lowest employee premiums was the West (\$43.51).

National and Regional Changes

Looking at the changes in national rates from 1996 to 1998, employee contributions are decreasing (-15.8 percent), employer contributions are increasing (5.2 percent) and total contributions are remaining fairly constant (0.9 percent).

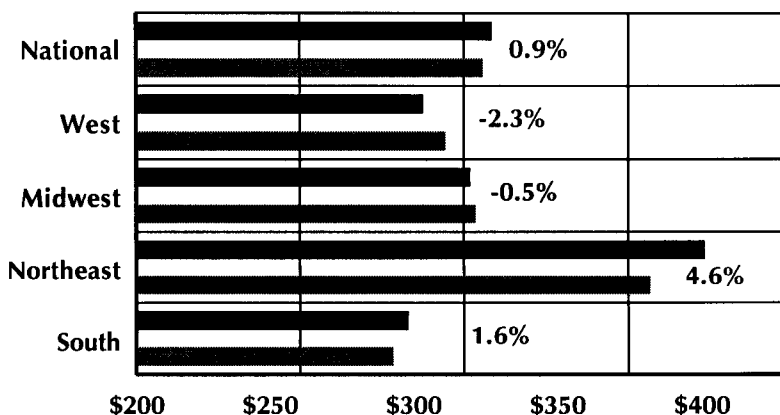
This national trend is closely paralleled in the West, with employee contributions dropping 33.8 percent, employer contribu-

Continued on Page 11

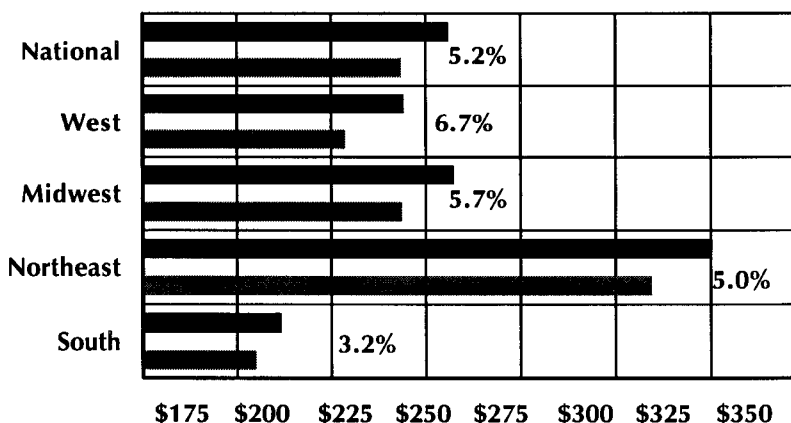
Comparison of 1998 and 1996 Regional Averages for State Employee Indemnity Health Plans

■ 1998 Rates ■ 1996 Rates

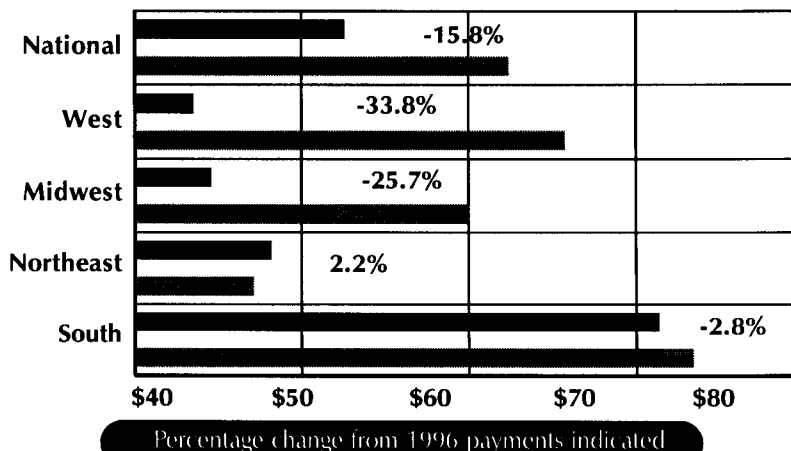
Composite Total Rates



Composite Employer Rates



Composite Employee Rates



Percentage change from 1996 payments indicated

Survey Results

Continued from Page 10

tions rising 6.7 percent, and overall contributions decreasing just 2.3 percent.

The Midwest also followed this trend, with employee costs decreasing 25.7 percent, employer costs increasing 5.7 percent and overall costs dropping 0.5 percent.

The fluctuations between 1996 and 1998 rates were much more modest in the Northeast and the South. Employee contributions in the Northeast actually *increased*, rising 2.2 percent. Employer contributions also increased--by 5.0 percent. This

area of the country also experienced fairly high total rate increases of 4.6 percent.

In the South, employee costs decreased (-2.8 percent), while employer costs increased by 3.2 percent. Total contributions in the South experienced a fairly modest increase of 1.6 percent.

Conclusion

The relatively static nature of contributions during this period is likely attributable to more aggressive use of managed care and provider pricing arrangements, as well as general easing of medical price

inflation.

It is anticipated that a recurrence of growth in employer costs will take place in the years ahead, as savings relating to these fundamental shifts in the marketplace will have approached their maximum.

Employers will be faced with either additional costs, reduced benefits for employees, increased employee premiums, restrictive arrangements with providers or, most likely, some combination of the above in order to continue to provide health insurance to their workforces. □

Past TRENDS

S.C. State Budget and Control Board

David M. Beasley, Chairman
Governor
Richard A. Eckstrom
State Treasurer
Earle E. Morris, Jr.
Comptroller General
John Drummond
Chairman, Senate Finance
Committee
Henry E. Brown, Jr.
Chairman, House Ways
& Means Committee
Luther F. Carter
Executive Director
James E. Bennett, CPCU
Director, Office of Insurance Services
.....

TRENDS is published quarterly
by the State Budget and Control Board,
Office of Insurance Services,
P.O. Box 11661, Columbia, SC 29211.
.....

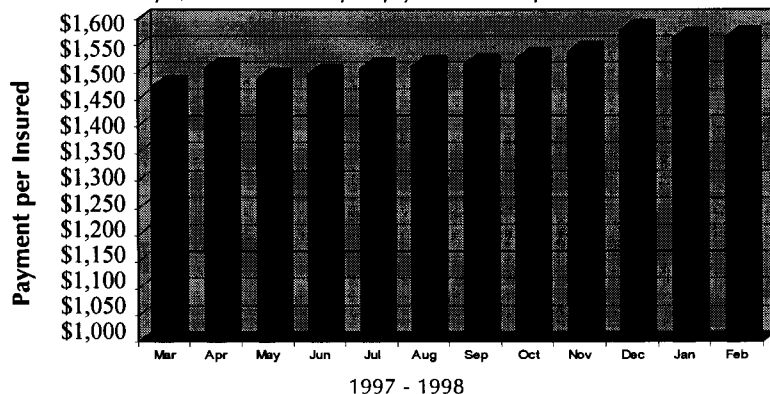
TRENDS Staff

Janet P. Scouten, Editor
Eva S. Harmon
Estela L. Long, Ph.D.
Rob Tester

Total printing cost = \$315.00; Total number
printed = 500; Unit cost = \$0.63.

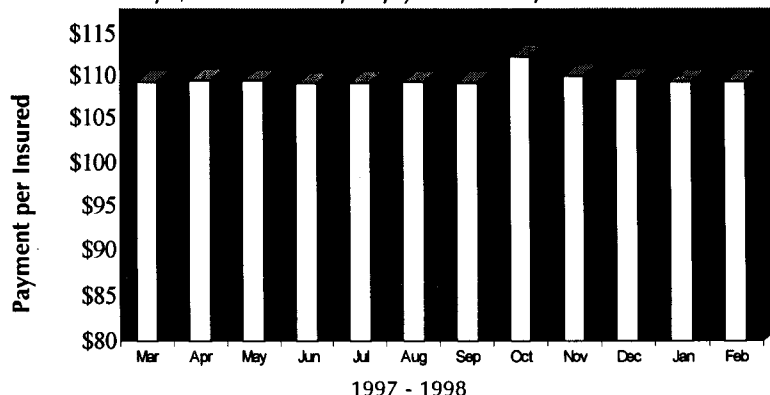
Medical Payments in Prior Year Ending in Month Listed

For example, the March total equals payments made April 1997 - March 1998.

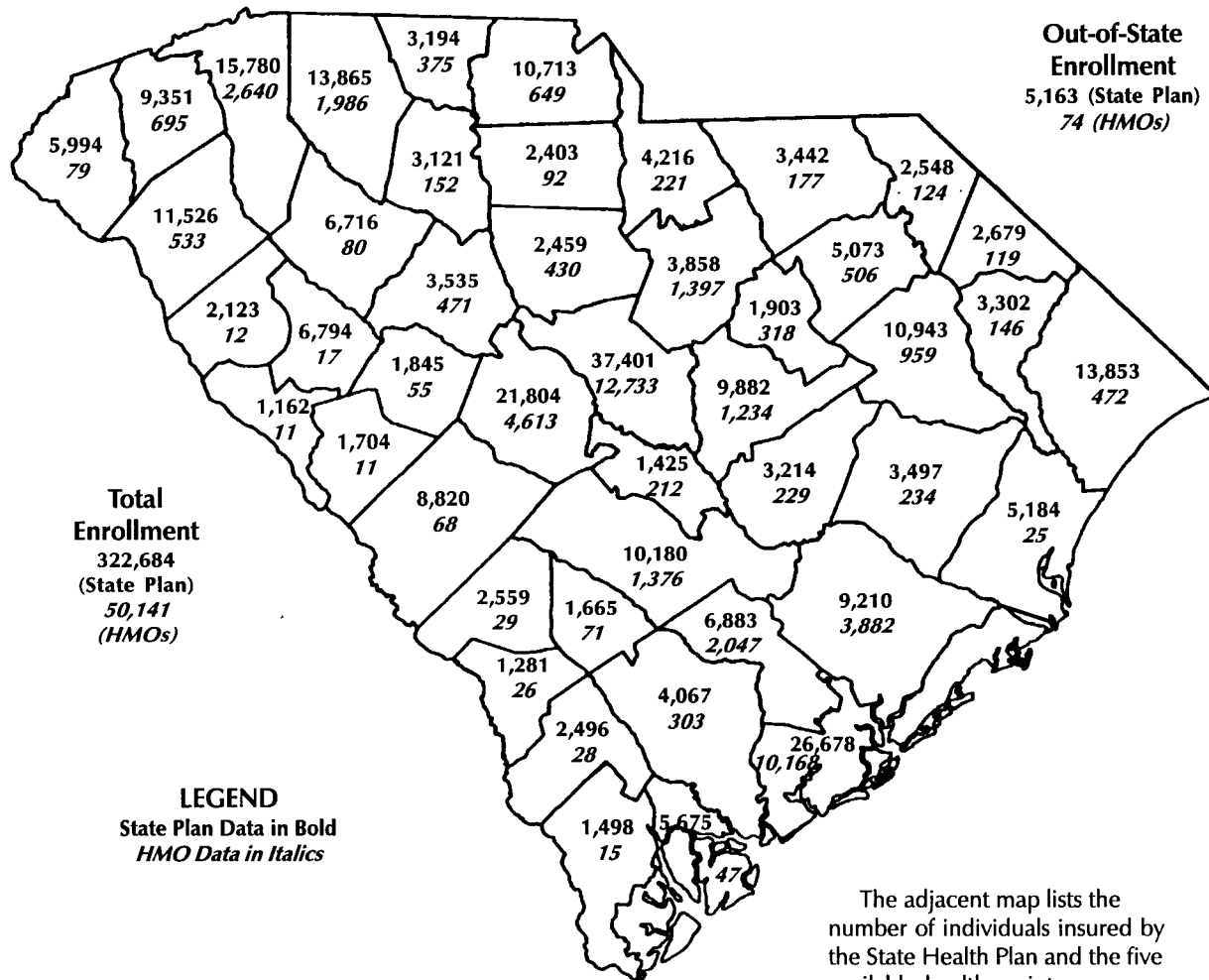


Dental Payments in Prior Year Ending in Month Listed

For example, the March total equals payments made April 1997 - March 1998.



1998 State Group Enrollment by County



Office of Insurance Services
State Budget and Control Board
Post Office Box 11661
Columbia, South Carolina 29211

ADDRESS CORRECTION REQUESTED